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EX PARTE



United States Telephone Association

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July 14, 1994

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW - Room 222
Washington, DC 20554

Re: Ex Parte Meeting
CC Docket No. 93-251

RECEIVED
JUL 14 1994
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Dear Mr. Caton:

On July 14, 1994, Charles Lathram of BellSouth, Bill Tomlinson of Bell Atlantic, Linda Libra of GTE, Kathleen Larkin of Southwestern Bell, Warren Hannah of Sprint Corporation and Porter Childers of the United States Telephone Association (USTA), all representing USTA, met with Kenneth Moran, William Kehoe, Kenneth Ackerman, and Ed Dashkin of the FCC Accounting and Audits Division, regarding the above referenced docket. The discussion was centered around the attached material and was consistent with USTA's written filing in that docket.

An original and a copy of this ex parte meeting notice are being joined in the office of the Secretary on July 14, 1994. Please include it in the public record of this proceeding.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Mary McDermott".
Mary McDermott
Vice President &
General Counsel

Attachment

cc: Kenneth Moran
William Kehoe
Kenneth Ackerman
Ed Dashkin

No. of Copies rec'd 021
List ABCDE

**USTA EX PARTE
CC DOCKET 93-251
AFFILIATE TRANSACTION RULES**

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**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY**

BACKGROUND

PRICE CAPS

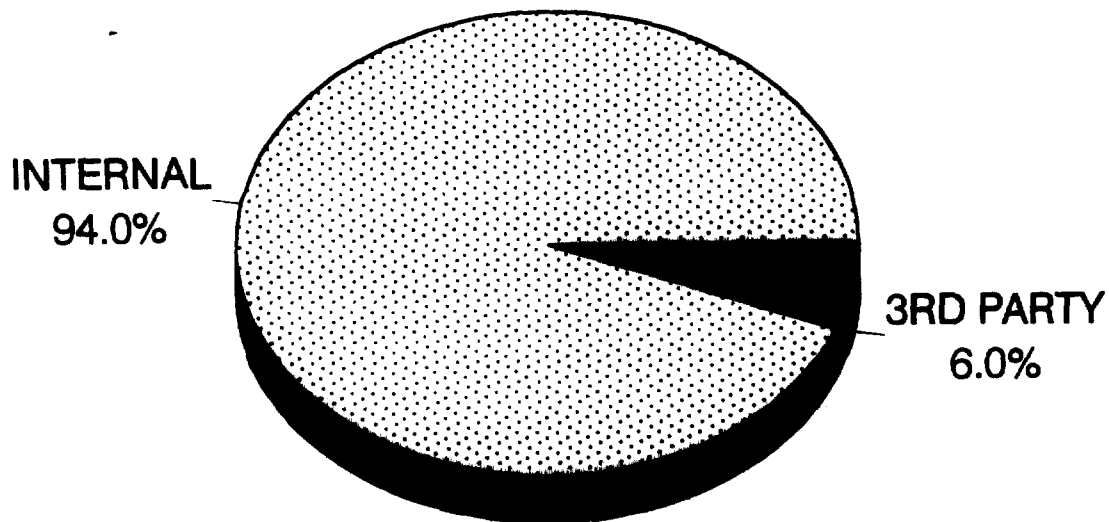
- o In a price cap environment, there should be less reliance on formal regulatory restraint and more reliance on increasing marketplace competition to govern pricing activities, including the pricing of transactions between the regulated telco and their nonregulated affiliates.**
- o FCC actions in regard to price cap regulations will dictate the level of regulation necessary for affiliate transactions. If price caps without sharing are put in place by the FCC, there is no need for affiliate transaction rules to apply to price cap companies. Even if sharing is not eliminated, LECs with an actual price index below the price cap have no financial incentive to take advantage of affiliate relationships and should be exempt from the regulations.**

REGULATORY PARITY

- o Affiliate transaction rules that incorporate a lower/higher of prevailing price or fully distributed cost rules unfairly discriminate against a carrier's nonregulated affiliate. One pricing standard should be adopted for transactions between affiliates, regardless of whether the products and services are moving into, or out of regulation.**

FAIR MARKET VALUATION TESTS ARE NOT REASONABLE

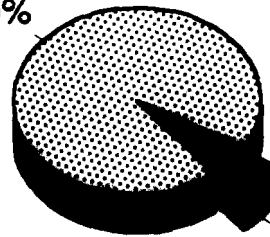
CATEGORY A - PRIMARILY INTERNAL



1. The affiliate is providing support and other management services to the family of companies. Example would be a parent holding company providing Corporate Accounting, Shareowner Services, Board of Directors, etc.
2. The existing affiliate rules apply, and costs are allocated to the benefitting affiliates based on fully distributed costs.
3. A transaction analysis indicates that a minor service was sold to a third party. This does not constitute a significant line of business. This would be a cost transaction billed at fully distributed cost, or the lower of cost versus prevailing price if the service is provided to both third parties and affiliated companies.

CATEGORY B - PRIMARILY EXTERNAL

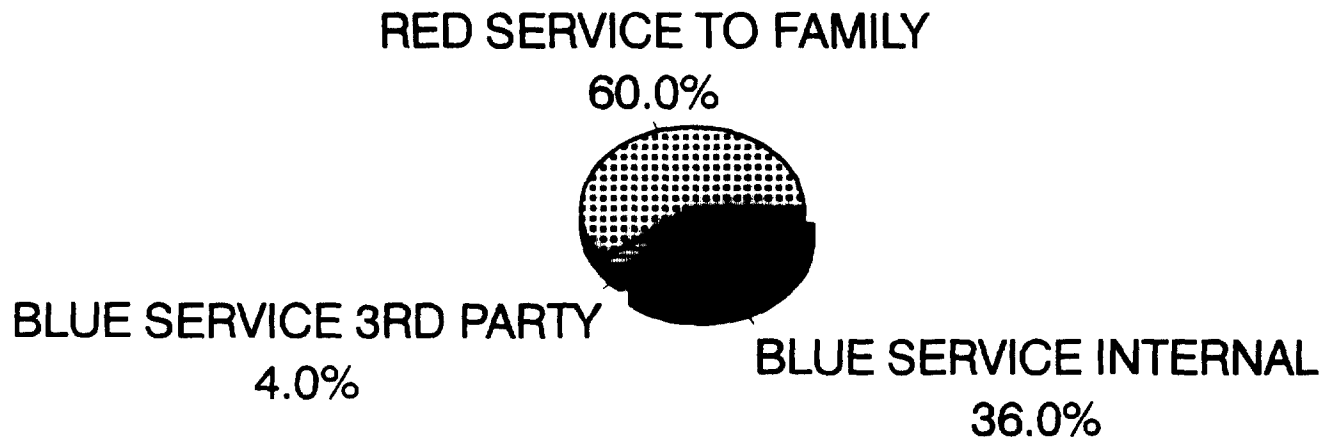
3RD PARTY & INTERNAL 94.0%



LEGAL TO TELCO 6.0%

1. The primary purpose of this cellular affiliate is to sell products/services to third parties.
2. The existing prevailing price rule is applied to the sale of the cellular products within the family of companies.
3. A lawyer working for cellular provides some legal work for the benefit of the Telco. This is not a significant line of business, and is not provided to third parties, and would be billed at fully distributed cost.

CATEGORY C - SUBSTANTIALLY INTERNAL



1. The majority of work provided by this Color Service Business is within the family of companies (96%).
2. An analysis of the services indicates that the blue color service is 40% of total sales. Less than 15% of the blue color service is to third parties, the remaining being sold within the family of companies.

The following analysis is required to apply to affiliate transaction rules:

- a. What is the documented prevailing price for the sale of blue color service to third parties?

Answer: \$10 per unit

- b. What is the fully distributed cost to provide the total blue color services?

Answer: \$9.50 per unit

- c. The Telco can record no more than \$9.50 per unit when purchasing blue color service from the Color Service Business Affiliate. (Note: To eliminate chaining concerns, this would also apply to any purchases by the family of companies.)